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## **OPERATING BUDGET GUIDE**

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### **COMPARISON OF TRADITIONAL LINE ITEM BUDGET AND PERFORMANCE BASED BUDGET**

Sunnyvale's Performance Based Budget concept places emphasis on planning and budgeting resources for the accomplishment of service objectives as compared to the traditional budget which bases decisions on line-item costs.

The traditional budget in local government provides detailed costs of resources by the use of line-item object accounts. These accounts just show the total cost of a particular class of labor or type of material (paper, asphalt, etc.) that has been approved as a budget item for an entire organizational unit, usually a Department. Some workload data may be provided in the budget but it is generally not related to the cost of performing the work. Neither efficiency nor effectiveness data are included in this type of budget.

Sunnyvale's Performance Budget is organized by programs, service delivery plans, and activities. During the budget development process, line item object accounts are used to budget within each activity, and it is the activity which generates the production units that accomplish the service objective. The Performance Budget thereby directly relates the labor, materials and other costs in the budget to the results that are to be produced. This link-up provides the means for measuring both the efficiency and effectiveness of resource utilization.

Resource allocation decisions in performance budgeting are based on the intended service levels. Program Managers have the flexibility to redistribute resources within their programs to maintain (not increase or decrease) current approved service levels.

The performance based management system is an important part of Sunnyvale's Planning and Management System (PAMS). The City began to implement this management concept in the late 1970's. In FY 2003/2004 Council directed staff to complete a comprehensive review and analysis of the performance based management system. The review and analysis of the system began early in FY 2004/2005 and was completed by the end of FY 2005/2006. This work was part of a comprehensive overhaul of the City's Planning and Management System. Work during FY 2004/2005 included evaluation of the philosophy and intent of the system as well as the processes that are followed to either establish a new or restructure an existing program to the performance based management system.

Staff restructured all programs into the revised format during the first half of FY 2005/2006. This allowed for the revised system to be used in preparing the two-year operating budget for FY 2006/2007 and FY 2007/2008.

The following table compares traditional line-item budgeting by entire departments to budgeting by Activities, which accomplish the Service Delivery Plan within each city Program.

### **LINE ITEM BUDGETING/PERFORMANCE BASED BUDGETING/ COMPARISON**

	<b>TRADITIONAL LINE ITEM BUDGETING</b>	<b>PERFORMANCE BASED BUDGETING</b>
<b>Budget Orientation</b>	Money Control	Program Service Delivery Plans
<b>Basic Budgeting Unit (Object Account)</b>	Line Item	Activity
<b>Efficiency Measurement</b>	Units Per Work Hour	Product Cost
<b>Results Measurement (Effectiveness/Quality)</b>	N/A	Performance Measures
<b>Budget Period</b>	One Year	Multi-Year

## **RELATIONSHIP TO THE GENERAL PLAN**

The overall purpose of the Performance Based Budget System is to establish a process to assist program managers in scheduling work and resources in order to efficiently and effectively carry out the City's Goals and Policies contained in its General Plan. This purpose is summarized in the following concepts:

- Integration of long-term planning and evaluation with the budget process by relating the City's work efforts to stated service levels aimed at accomplishment of the General Plan Goals and Policies.
- Defining City business in service level terms by use of performance measures and program statements to describe planned accomplishments, which contribute to achieving the General Plan's Goals and Policies.
- Recording the work hours, products and financial aspects of achieved accomplishments.
- Measuring the efficiency and effectiveness achieved in accomplishing budgeted objectives.

The above concepts are interrelated. For example, under the Performance-Based Budget method, the General Plan's Goals are directly related to specific Programs and Program Performance Statements. The Program Performance Statement provides answers to the following questions: What is the purpose of the program? How will this purpose be achieved? What key results are expected to be produced? The Service Delivery Plans are accomplished by Activities in which all work hours and other costs are charged, and the Products provide statistics on the efficiency of production through Product Cost and Products per Hour. Additionally, the effectiveness of each Program's accomplishments is also measured through Performance Measures.

## **RESOURCE ALLOCATION PLAN STRUCTURE OVERVIEW**

The City's Performance Based Budget System is a fully integrated component of the Planning and Management System (PAMS). The PAMS consists of three components: the City's General Plan (Policy Setting), Service Delivery (Operating Programs) and Evaluation (Program and Personnel Audits).

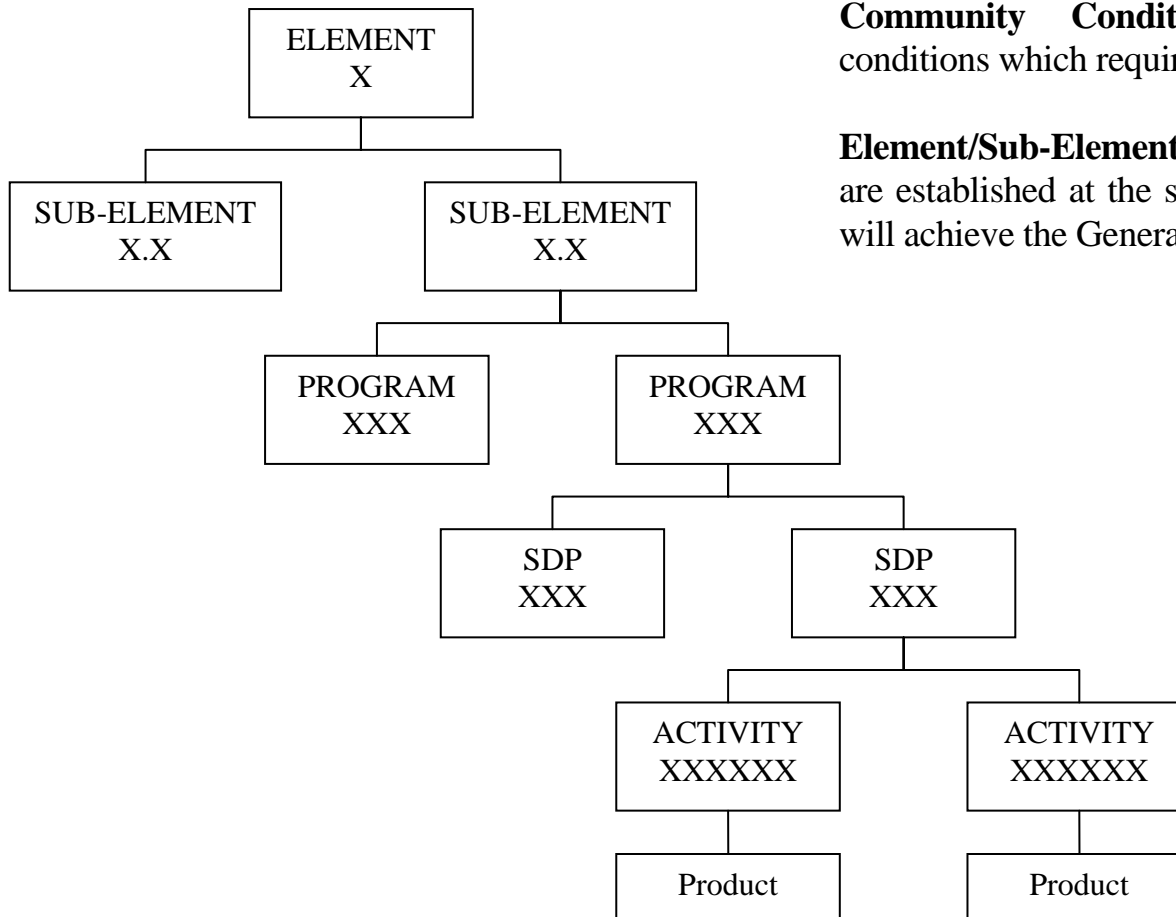
The General Plan and Service Delivery components are organized in a hierarchical structure which makes it possible to functionally relate the City's Goals and Policies to the actual work outputs which are produced to achieve those Goals. The structure is designed to make Service Delivery Objectives explicit within each Program so that information on the efficiency and effectiveness of its operations can be provided to Program Managers on a frequent basis.

The following three charts explain the program structure hierarchy and provide definitions of some key terms.

## GENERAL PLAN AND PROGRAM HIERARCHY

	HIERARCHICAL COMPONENT	RELATED DESCRIPTION	EVALUATION MEASURES
<b>GENERAL PLAN</b>	<b>ELEMENT/SUB-ELEMENT</b>	General Plan Goals, Policies and Action Statements	Community Condition Indicators Annual Performance Report
<b>BUDGET</b>	<b>PROGRAM</b>	Describes services delivered	Program Performance Measures
<b>(Resource Allocation Plan)</b>	<b>Service Delivery Plan (SDP)</b>	Describes programming of targeted service areas	Service Delivery Plan Statements
	<b>Activity</b>	Lowest official level cost center	Product Product/Hour Product Cost

## PERFORMANCE BASED BUDGET STRUCTURE HIERARCHY AND DEFINITION OF TERMS



**Community Condition Indicators** identify community conditions which require some form of direct or indirect service.

**Element/Sub-Element Goals, Policies and Action Statements** are established at the sub-element level and define how the City will achieve the General Plan's goals.

## PERFORMANCE BASED BUDGET STRUCTURE HIERARCHY AND DEFINITION OF TERMS

### PROGRAM STATEMENT

- *Council's Service Priority Direction*
- *Core Measures*
  - *Quality*
  - *Productivity*
  - *Cost Effectiveness*
  - *Financial*

**Program Performance Statements** describe the purpose and final result for which the program is undertaken (from customer's view) as well as broad service areas and critical measures.

### SERVICE DELIVERY PLANS

- *Specific Programming for:*
  - *Targeted Services*
  - *Program Goals & Measures*

**Service Delivery Plans (SDP)** describe specific programming of targeted services to meet the program goals.

### ACTIVITIES & SUB-ACTIVITIES

- *Budget Allocation*

**Activities** incorporate everything that goes into providing a specific service. This is the lowest official level cost center.

**Sub-Activities** (optional) are sub-sets of activities providing an optional cost accounting and management tool.

### PRODUCT

- *Demand Management*
- *Volume of Activities*

**Products** are the end results of activities that support program statements.

The General Plan comprises seven elements, which are further divided into sub-elements:

ELEMENT	SUB-ELEMENT
1. Land Use & Transportation	
2. Community Development	2.2 Open Space & Recreation 2.3 Housing & Community Revitalization 2.4 Safety & Seismic Safety 2.5 Community Design
3. Environmental Management	3.1 Water Resources 3.2 Solid Waste Management 3.3 Sanitary Sewer System 3.4 Surface Runoff 3.5 Energy 3.6 Noise 3.7 Source Reduction & Recycling
4. Public Safety	4.1 Law Enforcement 4.2 Fire 4.3 Support Services
5. Socio-Economic	5.1 Socio-Economic
6. Cultural	6.2 Library 6.3 Heritage Preservation 6.4 Arts
7. Planning and Management	7.1 Fiscal Management 7.2 Community Participation 7.3 Legislative Management

The Operating Budget is organized by elements and presented at the program level - the highest operating level in the hierarchy. For each element, the following information is presented:

- Goals, Policies and Action Statements
- Community Condition Indicators
- Program Performance Budget (RAP)

The RAP report provides an overview of the amount of resources that have been allocated to each program. It includes:

- (A) Program Performance Statement
- (B) Performance Measures
- (C) Service Delivery Plan Statement
- (D) Costs, Products, and Work Hours
- (E) Product Costs and Work Hours per Product

SEE SAMPLE REPORT ON FOLLOWING PAGES



**City of Sunnyvale**  
**Program Performance Budget**

**Program 763 - Provision of Vehicles and Motorized Equipment**

**Program Performance Statement**

Support City operations with a safe, functional and dependable fleet of vehicles at the lowest possible cost, by:

A

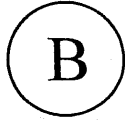
- Performing preventative maintenance and corrective repairs to minimize operating cost and maximize reliability of City vehicles and motorized equipment,
- Supplying City programs with necessary and appropriate vehicles and motorized equipment, and
- Generating and maintaining long range replacement plans to anticipate future vehicle and equipment needs.

**Notes**

**City of Sunnyvale**  
**Program Performance Budget**

**Program 763 - Provision of Vehicles and Motorized Equipment**

Program Measures



Quality

- \* Customers are satisfied with Provision of Vehicles and Motorized Equipment Services.

- **Percent of Customers Satisfied**

- Number of Internal Customer Survey Respondents

Productivity

- \* Percentage of time that city vehicles and equipment are available for usage (also known as "uptime").

- **Percent Available**

- Number of City Vehicles and Equipment

Cost Effectiveness

- \* The monthly rental cost for vehicles and motorized equipment is maintained at a level that is below commercial rates.

- **Percent Below Commercial Rate**

- \* The cost for a vehicular preventive maintenance service or inspection will not exceed the planned cost.

- **Cost Per Service or Inspection**

- Number of Vehicular Preventive Maintenance Services or Inspections

- \* The cost for an equipment related preventive maintenance service or inspection will not exceed the planned cost.

- **Cost Per Service or Inspection**

- Number of Equipment Preventive Maintenance Services or Inspections

- \* The cost for a vehicular repair will not exceed the planned cost.

- **Cost Per Vehicular Repair**

- Number of Vehicular Repairs

- \* The cost for an equipment related repair will not exceed the planned cost.

- **Cost Per Equipment Repair**

- Number of Equipment Repairs

Financial

- \* Actual total expenditures for Provision of Vehicles and Motorized Equipment will not exceed planned program expenditures.

- **Total Program Expenditures**

<u>Priority</u>	<u>2006/2007 Proposed</u>	<u>2007/2008 Proposed</u>
D	86.00% 175.00	86.00% 175.00
C	97.50% 531.00	97.50% 531.00
I	60.00%	60.00%
D	\$146.94 1,800.00	\$146.94 1,800.00
D	\$120.25 450.00	\$120.25 450.00
D	\$150.41 4,400.00	\$149.94 4,400.00
D	\$127.72 1,100.00	\$127.72 1,100.00
C	\$2,472,793.27	\$2,457,363.45

**City of Sunnyvale  
Program Performance Budget**

**Program 763 - Provision of Vehicles and Motorized Equipment**

**Program Measures**

**Financial**

\* The actual cost of replacing fleet assets shall be at or below planned annual cost.

**- Annual Rental Rate Schedule**

<b>Priority</b>	<b>2006/2007 Proposed</b>	<b>2007/2008 Proposed</b>
I	\$3,007,544.00	\$3,007,544.00

**Priority Legend**

M: Mandatory

C: Council Highest Priority

I: Important

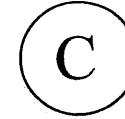
D: Desirable

**City of Sunnyvale**  
**Program Performance Budget**

**Program 763 - Provision of Vehicles and Motorized Equipment**

**Service Delivery Plan 76301 - Vehicle and Motorized Equipment Operation and Maintenance**

Optimize safety, functionality and availability of vehicles and motorized equipment to support City operations, by:



- Performing comprehensive "class specific" preventive maintenance per manufacturer specifications to City vehicles and motorized equipment to reduce unscheduled repairs and maintain vehicle warranties,
- Correcting mechanical deficiencies and completing necessary modifications to City vehicles and motorized equipment, and
- Providing and managing fuel services for all City vehicles and motorized equipment.

**Notes**

**City of Sunnyvale  
Program Performance Budget**

**Program 763 - Provision of Vehicles and Motorized Equipment**

**Service Delivery Plan 76301 - Vehicle and Motorized Equipment Operation and Maintenance**

	<u>2006/2007 Proposed</u>	<u>2007/2008 Proposed</u>
<b>Activity 763060 - Facility Maintenance - Time Spent by Fleet Staff Maintaining Fleet Shop</b>		
Product: A Daily Cleaning of Fleet Shop or Associated Facilities		
Costs:	\$52,132.79	\$53,323.99
Products:	249.00	249.00
Work Hours:	850.00	850.00
Product Cost:	\$209.37	\$214.15
Work Hours/Product:	3.41	3.41
<b>Activity 763070 - Transportation - Time Spent by Fleet Staff Transporting City Vehicles and Motorized Equipment to City Sites and Vendors</b>		
Product: A Vehicle/Motorized Equipment Transported		
Costs:	\$78,824.90	\$76,775.03
Products:	2,500.00	2,400.00
Work Hours:	1,500.00	1,440.00
Product Cost:	\$31.53	\$31.99
Work Hours/Product:	0.60	0.60
<b>Activity 763080 - Vehicle Preventive Maintenance - Periodic, Scheduled Maintenance and Inspection Services for City Vehicles</b>		
Product: A Preventive Maintenance Service or Inspection Performed		
Costs:	\$304,941.87	\$311,312.77
Products:	1,800.00	1,800.00
Work Hours:	4,100.00	4,100.00
Product Cost:	\$169.41	\$172.95
Work Hours/Product:	2.28	2.28

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